

Record of discussion of meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on January 11

The following is issued on behalf of the Hong Kong Monetary Authority:

(Approved for Issue by the Exchange Fund Advisory Committee on February 2, 2024)

Report on Currency Board Operations (October 18 – December 29, 2023)

The Currency Board Sub-Committee (Sub-Committee) noted that the Hong Kong dollar (HKD) traded within a range of 7.7906 – 7.8269 against the US dollar (USD) during the review period. The HKD exchange rate strengthened in November, mainly driven by buying flows on firmer HKD interest rates and net buying flows through the Southbound Stock Connect. HKD interbank rates continued to track the USD rates while also being affected by local supply and demand. The Convertibility Undertakings were not triggered and the Aggregate Balance was stable at around HK\$45 billion. No abnormality was noted in the usage of the Discount Window. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Monetary Base increased to HK\$1,895.86 billion at the end of the review period. In accordance with the Currency Board principles, all changes in the Monetary Base had been fully matched by changes in foreign reserves.

The Report on Currency Board Operations for the review period is at Annex.

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that market expectations of early interest rate cuts in 2024 had been bolstered by recent signs of cooling global growth and inflation, which underpinned rallies in major bond and equity markets in late 2023. However, there was a risk that financial markets might have discounted the "high for longer" scenario too soon given that services inflation in major advanced economies was still supported by tight labour markets that could render core inflation stickier than expected. Meanwhile, global commercial real estate (CRE) markets could face sustained headwinds, heaping pressure on banks with significant CRE exposures.

The Sub-Committee noted that economic recovery continued in Mainland China in Q4 2023, but the near-term economic outlook continued to face challenges. In response, the authorities strengthened fiscal policy support

to bolster infrastructure investment, and vowed to satisfy the reasonable financing needs of property developers regardless of their ownerships. As for the Asia Pacific region, while foreign exchange depreciation and capital outflow pressures subsided in late 2023 along with the rising rate cut expectations in the US, headwinds such as weak external demand would continue to weigh on regional economies. Meanwhile, the rising non-bank financial intermediation (NBFI) in the region was worth close monitoring given the data gaps and opacity of the NBFI market.

The Sub-Committee noted that in Hong Kong, economic activities recovered steadily through the end of 2023 on the back of the continued revival of inbound tourism and consumption demand. Looking ahead, these two segments were expected to support the economy in 2024, but the growth outlook was subject to increased external uncertainties relating to the US policy rate path, dimmer global economic prospects, the recovery pace of the global tech cycle and the evolving geopolitical tensions. While the Government's relaxations of demand-side management measures in late October 2023 had bolstered housing market sentiment somewhat, the housing market as well as the commercial property market remained soft amid the high interest rate environment.

Effective Exchange Rate Index

The effective exchange rate index for the Hong Kong dollar on Thursday, February 22, 2024 is 104.9 (down 0.1 against yesterday's index).

Transcript of remarks by SCST at media session

Following is the transcript of remarks by the Secretary for Culture, Sports and Tourism, Mr Kevin Yeung, at a media session after attending the launching ceremony of Art March 2024 today (February 22):

Reporter: How about the expansion of the resumption of the "one visa, multiple entry" scheme? Is there any update on that? Will it involve how many more cities? How much economic benefit is expected to generate?

Secretary for Culture, Sports and Tourism: We have been in continuous discussions with our Mainland counterparts on various measures to facilitate our Mainland tourists to come to Hong Kong. Any enhancement measures will

also benefit the Hong Kong tourism industry as a whole. As soon as we have some finalised proposals, we will make the announcement as soon as possible.

(Please also refer to the Chinese portion of the transcript.)

Inspection of aquatic products imported from Japan

In response to the Japanese Government's plan to discharge nuclear-contaminated water at the Fukushima Nuclear Power Station, the Director of Food and Environmental Hygiene issued a Food Safety Order which prohibits all aquatic products, sea salt and seaweeds originating from the 10 metropolis/prefectures, namely Tokyo, Fukushima, Ibaraki, Miyagi, Chiba, Gunma, Tochigi, Niigata, Nagano and Saitama, from being imported into and supplied in Hong Kong.

For other Japanese aquatic products, sea salt and seaweeds that are not prohibited from being imported into Hong Kong, the Centre for Food Safety (CFS) of the Food and Environmental Hygiene Department will conduct comprehensive radiological tests to verify that the radiation levels of these products do not exceed the guideline levels before they are allowed to be supplied in the market.

As the discharge of nuclear-contaminated water is unprecedented and will continue for 30 years or more, the Government will closely monitor and step up the testing arrangements. Should anomalies be detected, the Government does not preclude further tightening the scope of the import ban.

From noon on February 21 to noon today (February 22), the CFS conducted tests on the radiological levels of 104 food samples imported from Japan, which were of the "aquatic and related products, seaweeds and sea salt" category. No sample was found to have exceeded the safety limit. Details can be found on the CFS's thematic website titled "Control Measures on Foods Imported from Japan" (www.cfs.gov.hk/english/programme/programme_rafs/programme_rafs_fc_01_30_Nuclear_Event_and_Food_Safety.html).

The Agriculture, Fisheries and Conservation Department (AFCD) has also tested 50 samples of local catch for radiological levels. All the samples passed the tests. Details can be found on the AFCD's website (www.afcd.gov.hk/english/fisheries/Radiological_testing/Radiological_Test.html).

The Hong Kong Observatory (HKO) has also enhanced the environmental monitoring of the local waters. No anomaly has been detected so far. For

details, please refer to the HKO's website (www.hko.gov.hk/en/radiation/monitoring/seawater.html).

From August 24 to noon today, the CFS and the AFCD have conducted tests on the radiological levels of 31 869 samples of food imported from Japan (including 21 348 samples of aquatic and related products, seaweeds and sea salt) and 8 972 samples of local catch respectively. All the samples passed the tests.

EPD convictions in January

Thirty-one convictions were recorded in January 2024 for breaches of legislation enforced by the Environmental Protection Department.

Five of the convictions were under the Air Pollution Control Ordinance, two were under the Noise Control Ordinance, 13 were under the Public Cleansing and Prevention of Nuisances Regulation, one was under the Product Eco-responsibility Ordinance, eight were under the Waste Disposal Ordinance, and two were under the Water Pollution Control Ordinance.

A company was fined \$41,000, which was the heaviest fine in January, for failing to comply with the requirements of a noise abatement notice.